

OPEN MEETING



MEMORANDUM

RECEIVED

2014 SEP 30 P 12:27

TO: THE COMMISSION Arizona Corporation Commission
FROM: Utilities Division DOCKETED AZ CORP COMMISSION
DOCKET CONTROL
DATE: September 30, 2014 SEP 30 2014

ORIGINAL

RE: IN THE MATTER OF ~~THE APPLICATION~~ OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA. -- SPECIFICALLY IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY'S APPLICATION TO ADJUST TARIFFS.
(DOCKET NO. E-01933A-12-0291)

On July 1, 2014, Tucson Electric Power Company ("TEP") filed an application for approval to adjust its Small General Service Time-of-Use Program tariff ("GS-76") to correct for unanticipated customer rate impacts. TEP also sought a corresponding adjustment to its Small General Service tariff ("GS-10") to ensure that the adjustments are revenue neutral to TEP.

Background

Decision No. 73912, effective July 1, 2013, approved TEP's recent rate case and ordered (at page 73) that the Docket would be held open until July 1, 2014, for "the possible adjustment of specific tariffs to correct for unintended rate impacts that are determined to be inconsistent with the public interest, however any such adjustments shall not have the effect in the aggregate of changing Tucson Electric Power Company's non-fuel revenue requirement."

Since TEP's new rate structure went into effect, an unexpectedly high number of customers have moved from the standard General Service tariff ("GS-10") to the time-of-use GS-76, including many businesses that do not typically change their energy usage to minimize peak-period consumption (e.g. 24-hour data centers and businesses with daytime hours). TEP's investigation revealed that the GS-76 rates had been calculated incorrectly, resulting in significantly overstated revenue calculations for this rate class and a corresponding rate that was inappropriately low during peak periods.

As a result of GS-10 having inverted block rates and GS-76 not having them, the design of Rate GS-76 unintentionally encouraged increased usage and yet lacked an appropriate incentive to reduce peak-hour usage. As shown on Table 1 below, the GS-76 time-of-use rates provide most customers with significant discounts over GS-10 rates *even if there is no change* in on-peak usage. Moreover, the error caused GS-10 rates to be slightly higher than necessary, forcing GS-10 customers to provide a subsidy to GS-76 customers.

Table 1
Comparison of Rate 10 to Rate 76

| <u>July 1, 2013 rate structure</u> | | | | | |
|------------------------------------|----------|------------|-------------|-------------|-------------|
| Percentiles>>> | 25 | 50 | Mean | 75 | 90 |
| Average kWh per Month | 487 | 4,927 | 11,264 | 18,015 | 30,664 |
| Total Annual Bill Current Rate 10 | \$763.05 | \$7,246.51 | \$16,512.78 | \$26,415.14 | \$44,814.92 |
| Total Annual Bill Current Rate 76 | \$831.91 | \$6,608.22 | \$14,855.94 | \$23,671.90 | \$40,042.87 |
| Annual Savings with Rate 76 | -\$68.85 | \$638.29 | \$1,656.84 | \$2,743.24 | \$4,772.05 |
| Percentage Savings with Rate 76 | -9.0% | 8.8% | 10.0% | 10.4% | 10.6% |

Notice to Customers

TEP had notified its GS-76 customers of these issues on July 11, 2014, and informed them of their right to submit comments. Two customers did so.

Although GS-76 requires customers to stay on the tariff for a minimum of one year, TEP's letter to customers also informed them that at that time they may change tariffs regardless of the length of time on their present tariff. This would allow customers to choose the rate that best suits their needs.

TEP's Initial Proposal July 1, 2014

With Decision No. 73912, on July 1, 2013, Rate 10 and Rate 76 customers each received about a 10% increase. On July 1, 2014, TEP proposed adjustments that would have given Rate 76 customers an additional 8% increase over the July 1, 2013, rates and, to maintain revenue neutrality, would have decreased Rate 10 by 0.3%.

The net result for Rate 76 customers would have been an overall increase of 18.35% over the rates in effect prior to Decision No. 73912 (July 1, 2013). Staff had concerns with this large increase and requested that TEP try a different approach to solve the problems with Rates 10 and 76. TEP has done so as discussed here.

Updated Relief Requested

TEP has provided to Staff its request that the Commission approve modifications to the GS-76 and GS-10 tariffs. The adjustment would change each Rate 10 energy rate by a consistent \$0.0002 per kWh which produces an impact of 0.34% or less on the annual bill. To maintain the same impact in Rate 76, the Rate 76 change would be \$0.0004 per kWh. As shown on Tables 2 and 3 below, this would result in an impact of approximately 0.37% or less on an average bill. This proposal keeps the impact on all small general service customers to less than 0.4% and spreads the

adjustment to only the Small General Service class of customers. The proposed tariff revisions would be revenue neutral to TEP.

The proposed revisions also would freeze Rate 76 such that no more customers would be able to move to this tariff.

Table 2
Rate 76 Bill Impacts

| Monthly Average kWh | 487 | 4,927 | 11,264 | 18,015 | 30,664 |
|--------------------------|----------|------------|-------------|-------------|-------------|
| Total Present Summer | \$69.96 | \$666.96 | \$1,524.01 | \$2,470.05 | \$4,076.33 |
| Total Present Winter | \$68.87 | \$467.63 | \$1,033.70 | \$1,617.38 | \$2,808.74 |
| Total Annual Bill | \$831.91 | \$6,608.22 | \$14,855.94 | \$23,671.90 | \$40,042.87 |
| Total Proposed Summer | \$70.14 | \$669.14 | \$1,529.05 | \$2,478.25 | \$4,089.90 |
| Total Proposed Winter | \$69.08 | \$469.46 | \$1,037.83 | \$1,623.87 | \$2,820.08 |
| Total Annual Bill | \$834.26 | \$6,631.92 | \$14,910.06 | \$23,758.34 | \$40,190.06 |
| Dollar Change Summer | \$0.18 | \$2.18 | \$5.04 | \$8.20 | \$13.57 |
| Dollar Change Winter | \$0.21 | \$1.83 | \$4.13 | \$6.49 | \$11.34 |
| Dollar Change Annual | \$2.35 | \$23.70 | \$54.12 | \$86.44 | \$147.19 |
| Percentage Change Summer | 0.25% | 0.33% | 0.33% | 0.33% | 0.33% |
| Percentage Change Winter | 0.31% | 0.39% | 0.40% | 0.40% | 0.40% |
| Percentage Change Annual | 0.28% | 0.36% | 0.36% | 0.37% | 0.37% |

Table 3
Rate 10 Bill Impacts

| Monthly Average kWh | 487 | 4,927 | 11,264 | 18,015 | 30,664 |
|-----------------------|----------|------------|-------------|-------------|-------------|
| Total Present Summer | \$64.96 | \$730.08 | \$1,686.79 | \$2,742.83 | \$4,535.90 |
| Total Present Winter | \$62.61 | \$513.73 | \$1,154.12 | \$1,814.43 | \$3,162.20 |
| Total Annual Bill | \$763.05 | \$7,246.51 | \$16,512.78 | \$26,415.14 | \$44,814.92 |
| Total Proposed Summer | \$65.05 | \$731.16 | \$1,689.30 | \$2,746.94 | \$4,542.68 |
| Total Proposed Winter | \$62.83 | \$516.38 | \$1,160.21 | \$1,824.09 | \$3,179.12 |
| Total Annual Bill | \$765.06 | \$7,270.46 | \$16,567.97 | \$26,503.33 | \$44,967.24 |
| Dollar Change Summer | \$0.09 | \$1.08 | \$2.51 | \$4.11 | \$6.78 |
| Dollar Change Winter | \$0.22 | \$2.65 | \$6.09 | \$9.66 | \$16.92 |
| Dollar Change Annual | \$2.01 | \$23.95 | \$55.19 | \$88.19 | \$152.32 |

THE COMMISSION

September 30, 2014

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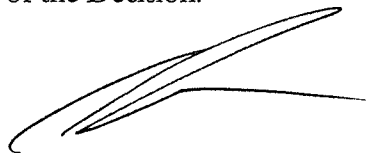
| | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| Percentage Change Summer | 0.14% | 0.15% | 0.15% | 0.15% | 0.15% |
| Percentage Change Winter | 0.35% | 0.52% | 0.53% | 0.53% | 0.54% |
| Percentage Change Annual | 0.26% | 0.33% | 0.33% | 0.33% | 0.34% |

Recommendations

Staff recommends that the energy rates on GS-76 be increased by \$0.0004 per kWh and that the energy rates on GS-10 be increased by \$0.0002 per kWh, effective with the effective date of the Decision in this matter.

Staff further recommends that GS-76 be frozen such that no more customers would be able to move on to the tariff.

Staff further recommends that TEP be required to file with Docket Control revised GS-10 and GS-76 Tariffs in compliance with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO: JJP:sms\RRM

ORIGINATOR: Jeffrey Pasquinelli

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 BOB STUMP

Chairman

3 GARY PIERCE

Commissioner

4 BRENDA BURNS

Commissioner

5 BOB BURNS

Commissioner

6 SUSAN BITTER SMITH

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF TUCSON ELECTRIC POWER)
10 COMPANY FOR THE ESTABLISHMENT)
11 OF JUST AND REASONABLE RATES AND)
12 CHARGES DESIGNED TO REALIZE A)
13 REASONABLE RATE OF RETURN ON)
14 THE FAIR VALUE OF ITS OPERATIONS)
15 THROUGHOUT THE STATE OF)
16 ARIZONA. -- SPECIFICALLY IN THE)
17 MATTER OF TUCSON ELECTRIC POWER)
18 COMPANY'S APPLICATION TO ADJUST)
19 TARIFFS.)

DOCKET NO. E-01933A-12-0291

DECISION NO. _____

ORDER

15
16 Open Meeting
17 October 16, 2014
18 Phoenix, Arizona

19 BY THE COMMISSION:

20 FINDINGS OF FACT

21 1. Tucson Electric Power Company ("TEP") is certificated to provide electric service as a
22 public service corporation in the State of Arizona.

23 2. On July 1, 2014, TEP filed an application for approval to adjust its Small General
24 Service Time-of-Use Program tariff ("GS-76") to correct for unanticipated customer rate impacts.
25 TEP also sought a corresponding adjustment to its Small General Service tariff ("GS-10") to ensure
26 that the adjustments are revenue neutral to TEP.

27 Background

28 3. Decision No. 73912, effective July 1, 2013, approved TEP's recent rate case and
ordered (at page 73) that the Docket would be held open until July 1, 2014, for "the possible

adjustment of specific tariffs to correct for unintended rate impacts that are determined to be inconsistent with the public interest, however any such adjustments shall not have the effect in the aggregate of changing Tucson Electric Power Company's non-fuel revenue requirement."

4. Since TEP's new rate structure went into effect, an unexpectedly high number of customers have moved from the standard General Service tariff ("GS-10") to the time-of-use GS-76, including many businesses that do not typically change their energy usage to minimize peak-period consumption (e.g. 24-hour data centers and businesses with daytime hours). TEP's investigation revealed that the GS-76 rates had been calculated incorrectly, resulting in significantly overstated revenue calculations for this rate class and a corresponding rate that was inappropriately low during peak periods.

5. As a result of GS-10 having inverted block rates and GS-76 not having them, the design of Rate GS-76 unintentionally encouraged increased usage and yet lacked an appropriate incentive to reduce peak-hour usage. As shown on Table 1 below, the GS-76 time-of-use rates provide most customers with significant discounts over GS-10 rates even if there is no change in on-peak usage. Moreover, the error caused GS-10 rates to be slightly higher than necessary, forcing GS-10 customers to provide a subsidy to GS-76 customers.

Table 1
Comparison of Rate 10 to Rate 76

July 1, 2013 rate structure

| Percentiles>>> | 25 | 50 | Mean | 75 | 90 |
|-----------------------------------|----------|------------|-------------|-------------|-------------|
| Average kWh per Month | 487 | 4,927 | 11,264 | 18,015 | 30,664 |
| Total Annual Bill Current Rate 10 | \$763.05 | \$7,246.51 | \$16,512.78 | \$26,415.14 | \$44,814.92 |
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Notice to Customers

6. TEP had notified its GS-76 customers of these issues on July 11, 2014, and informed them of their right to submit comments. Two customers did so.

7. Although GS-76 requires customers to stay on the tariff for a minimum of one year, TEP's letter to customers also informed them that at that time they may change tariffs regardless of the length of time on their present tariff. This would allow customers to choose the rate that best suits their needs.

TEP's Initial Proposal July 1, 2014

8. With Decision No. 73912, on July 1, 2013, Rate 10 and Rate 76 customers each received about a 10% increase. On July 1, 2014, TEP proposed adjustments that would have given Rate 76 customers an additional 8% increase over the July 1, 2013, rates and, to maintain revenue neutrality, would have decreased Rate 10 by 0.3%.

9. The net result for Rate 76 customers would have been an overall increase of 18.35% over the rates in effect prior to Decision No. 73912 (July 1, 2013). Staff had concerns with this large increase and requested that TEP try a different approach to solve the problems with Rates 10 and 76. TEP has done so as discussed here.

Updated Relief Requested

10. TEP has provided to Staff its request that the Commission approve modifications to the GS-76 and GS-10 tariffs. The adjustment would change each Rate 10 energy rate by a consistent \$0.0002 per kWh which produces an impact of 0.34% or less on the annual bill. To maintain the same impact in Rate 76, the Rate 76 change would be \$0.0004 per kWh. As shown on Tables 2 and 3 below, this would result in an impact of approximately 0.37% or less on an average bill. This proposal keeps the impact on all small general service customers to less than 0.4% and spreads the adjustment to only the Small General Service class of customers. The proposed tariff revisions would be revenue neutral to TEP.

11. The proposed revisions also would freeze Rate 76 such that no more customers would be able to move to this tariff.

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| Percentage Change Summer | 0.14% | 0.15% | 0.15% | 0.15% | 0.15% |
| Percentage Change Winter | 0.35% | 0.52% | 0.53% | 0.53% | 0.54% |
| Percentage Change Annual | 0.26% | 0.33% | 0.33% | 0.33% | 0.34% |

1 Recommendations

2 12. Staff has recommended that the energy rates on GS-76 be increased by \$0.0004 per
3 kWh and that the energy rates on GS-10 be increased by \$0.0002 per kWh, effective with the effective
4 date of the Decision in this matter.

5 13. Staff has further recommended that GS-76 be frozen such that no more customers
6 would be able to move on to the tariff.

7 14. Staff has further recommended that TEP be required to file with Docket Control
8 revised GS-10 and GS-76 tariffs in compliance with the Decision in this case within 15 days of the
9 effective date of the Decision.

10 CONCLUSIONS OF LAW

11 15. Tucson Electric Power Company is an Arizona public service corporation within the
12 meaning of Article XV, Section 2, of the Arizona Constitution.

13 16. The Commission has jurisdiction over Tucson Electric Power Company and the
14 subject matter of this application.

15 17. The Commission having reviewed the application and Staff's memorandum dated
16 September 30, 2014, concludes that it is in the public interest to adjust the GS-76 and GS-10 tariffs, as
17 discussed herein.

18 ORDER

19 IT IS THEREFORE ORDERED that the energy rates on GS-76 be increased by \$0.0004 per
20 kWh and that the energy rates on GS-10 be increased by \$0.0002 per kWh, effective with the effective
21 date of the Decision in this matter.

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1 IT IS FURTHER ORDERED that GS-76 be frozen such that no more customers would be
2 able to move on to the tariff.

3 IT IS FURTHER ORDERED that Tucson Electric Power Company shall file with Docket
4 Control revised GS-10 and GS-76 tariffs in compliance with the Decision in this case within 15 days
5 of the effective date of the Decision.

6 IT IS FURTHER ORDERED that this Order become effective immediately.

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

9
10 _____
CHAIRMAN

COMMISSIONER

11
12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14
15 IN WITNESS WHEREOF, I, JODI JERICH, Executive
16 Director of the Arizona Corporation Commission, have
17 hereunto, set my hand and caused the official seal of this
18 Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 2014.

20 _____
JODI JERICH
EXECUTIVE DIRECTOR

21
22 DISSENT: _____

23
24 DISSENT: _____

25 SMO:JJP:sms\RRM
26
27
28

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